

# NATIONAL CREDIT UNION ADMINISTRATION

OFFICE OF THE INSPECTOR GENERAL

REPORT TO CONGRESS

APRIL 1, 1996 - September 30, 1996

## **THE NCUA MISSION**

**TO ENSURE THE SAFETY AND SOUNDNESS OF CREDIT UNIONS  
BY PROVIDING APPROPRIATE REGULATION AND SUPERVISION,  
WHILE EFFECTIVELY MANAGING THE AGENCY'S RESOURCES  
AND THE SHARE INSURANCE FUND**

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## **THE OFFICE OF INSPECTOR GENERAL MISSION**

**TO PROMOTE ECONOMY, EFFICIENCY, AND EFFECTIVENESS  
IN NCUA PROGRAMS AND OPERATIONS,  
AS WELL AS PREVENT AND DETECT FRAUD, WASTE, AND ABUSE**

## INDEX OF REPORTING REQUIREMENTS

### OFFICE OF INSPECTOR GENERAL NATIONAL CREDIT UNION ADMINISTRATION

SECTION	DATA REQUIRED	RESPONSE	PAGE REF
4(a)(2)	Review of Legislation and Regulations		17
5(a)(1)	Significant Problems, Abuses, or Deficiencies relating to the administration of programs and operations disclosed during the reporting period.		12
5(a)(3)	Recommendations with Respect to Significant Problems, Abuses, or Deficiencies.		12
5(a)(3)	Significant Recommendations Described in Previous Semiannual Reports on Which Corrective Action Has Not Been Completed.	None	
5(a)(4)	Summary of Matters Referred to Prosecution Authorities and Prosecutions Which Have Resulted.	None	
5(a)(5)	Summary of Each Report to the Board Detailing Cases Where Access to All Records Was Not Provided or Where Information Was Refused.	None	
5(a)(6)	List of Audit Reports Issued During the Reporting Period.		21
5(a)(7)	Summary of Particularly Significant Reports.		12-14
5(a)(8)	Statistical Tables on Audit Reports With Questioned Costs.		19
5(a)(9)	Statistical Tables on Audit Reports With Recommendations That Funds Be Put To Better Use.		20
5(a)(10)	Summary of Each Audit Report Issued Before the Start of the Reporting Period for Which No Management Decision Has Been Made by the End of the Reporting Period.		13
5(a)(11)	Description and Explanation of Reasons for any Significant Revised Management Decision Made During the Reporting Period.	None	
5(a)(12)	Information Concerning Significant Management Decisions With Which the Inspector General is in Disagreement.	None	

## **INSPECTOR GENERAL'S MESSAGE TO THE CONGRESS**

Mid-year data collected by the NCUA show that credit union members and assets have grown steadily although the number of credit unions has declined. The National Credit Union Share Insurance Fund (NCUSIF) remains very healthy, because it has not yet had to add to its reserve for potential losses. The Fund expects to pay \$104 million in dividends again this year.

Our greatest concern, as discussed inside (page 5), is the potential effect on the industry of the October 25, 1996, injunction issued by the U.S. District Court for the District of Columbia against NCUA and other defendants in two consolidated cases involving NCUA's interpretation of its "Field of Membership" (FOM) policy. The Court ruled that membership in a Federal credit union by individuals or groups of individuals who do not share a *single common bond* of occupation with all other members thereof is declared to be unlawful and the NCUA is restrained from authorizing these credit unions from admitting members who do not share a single common bond of occupation.

This ruling reverses NCUA's 14-year policy of authorizing credit unions to expand by adding other groups with common bonds unrelated to the common bond of the original credit union "core" membership. NCUA has requested clarification from the court on the extent of the ruling and plans an appeal. The agency's request to the Court of Appeals of the D.C. Circuit, for a rehearing *en banc* of its original decision, was rejected on October 23, 1996.

The court's decision could have a devastating effect on the credit union industry. Congress passed the Federal Credit Union Act in 1934 to, "make more available to people of small means credit for provident purposes through a national system of cooperative credit, thereby helping to stabilize the credit structure of the United States." 12 U.S.C. 1751. If Federal credit unions are prohibited from adding members other than their original, "core" constituencies, and especially if credit unions currently serving such constituencies are forced to divest themselves of these other groups, many of the smaller constituencies will be unable to establish separate institutions for themselves, and many "people of small means" will therefore be deprived of available credit and other financial services.

### **AUDIT HIGHLIGHTS**

Our audit of the General Counsel's ethics and other non-litigation programs disclosed that programs were generally being managed well. NCUA is complying with laws and regulations, and the Office of General Counsel is providing good legal services to NCUA Offices. The NCUA information centers were responding well to public requests under the Freedom of Information Act program; but some improvements were needed to ensure that all information centers invoiced requesters uniformly, fees were updated, and internal controls were established. Some improvements were also needed in the administration of the Ethics Program.

The review of the Asset Liquidation and Management Center, with emphasis on its Division of Asset Sales and Management, disclosed that real property and loans acquired as a result of credit union liquidations were being managed and liquidated effectively and efficiently. We found some minor weaknesses on the part of contract collection firms handling consumer loans, but the Center took corrective actions.

## **INVESTIGATIVE HIGHLIGHTS**

During the reporting period, this office closed twelve investigative matters. We issued four investigative reports, two of which resulted in administrative action being taken against NCUA employees, and one of which has been referred to the United States Attorney for civil prosecution. Numbers of allegations coming to us through the hotline and other methods remain steady and high. We anticipate that the launching of our integrity awareness training sessions for new employees, which began in July as part of New Employee Training, will have an impact on the numbers of allegations reported in the future.

## **FUTURE PLANS**

In the next reporting period, we will complete our review of agency procurement of goods and services in the central and regional offices, and our review of the Office of Training and Development. We will complete our audit of regional programs in Regions I, II, and VI. Our analysis of and assistance with the agency's preparation for strategic and financial plans required by the GPRA will also continue.

We have selected a new outside independent financial auditor, Deloitte and Touche, to prepare the annual financial audits of all NCUA funds, and have begun planning for those audits which will begin in earnest in January 1997.

In the investigative arena, we expect to complete two pro-active investigations or inspections: one on potential Frequent Flyer use and abuse, and one on security files maintenance.

Frank Thomas  
Inspector General

## TABLE OF CONTENTS

INDEX OF REPORTING REQUIREMENTS.....	inside front cover
INSPECTOR GENERAL'S MESSAGE TO CONGRESS.....	i
NATIONAL CREDIT UNION ADMINISTRATION.....	1
NCUA Highlights.....	4
Federally Insured Credit Union Highlights.....	7
Legislative Highlights.....	9
OFFICE OF THE INSPECTOR GENERAL.....	11
AUDIT ACTIVITY.....	12
INVESTIGATION ACTIVITY.....	15
LEGISLATIVE AND REGULATORY REVIEWS.....	17
OTHER INSPECTOR GENERAL ACTIVITIES.....	18
TABLE I -- REPORTS WITH QUESTIONED COSTS.....	19
TABLE II -- REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE.....	20
TABLE III -- SUMMARY OF OIG ACTIVITY.....	21

## NATIONAL CREDIT UNION ADMINISTRATION

The National Credit Union Administration (NCUA) was established as an independent, federal regulatory agency on March 10, 1970. The agency is responsible for chartering, examining, supervising, and insuring federal credit unions. It also insures state-chartered credit unions that have applied for insurance and have met National Credit Union Share Insurance requirements. NCUA is funded entirely by credit unions; it does not receive any tax dollars. As of September 30, 1996, the NCUA was supervising and insuring 7,217 Federal credit unions and insuring 4,269 state-chartered credit unions. This represents a loss of 112 Federal and 89 State chartered institutions from the last reporting period.

NCUA operates under the direction of a Board composed of three members. Board members are appointed by the President and confirmed by the Senate. They serve six-year terms. Terms are staggered, so that one

term expires every two years. The Board is responsible for the management of the National Credit Union Administration, the NCUA Share Insurance Fund, the Central Liquidity Facility, and the Community Development Revolving Loan Program.

The National Credit Union Administration executes its program through its central office in Alexandria, Virginia and regional offices in Albany, New York; Alexandria, Virginia; Atlanta, Georgia; Lisle, Illinois; Austin, Texas; and Concord, California. NCUA also has an Asset Liquidation Management Center in Austin, Texas. Please refer to the NCUA organizational chart on the following page.

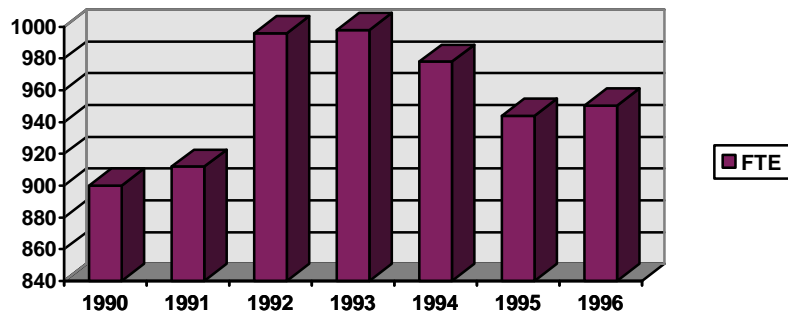
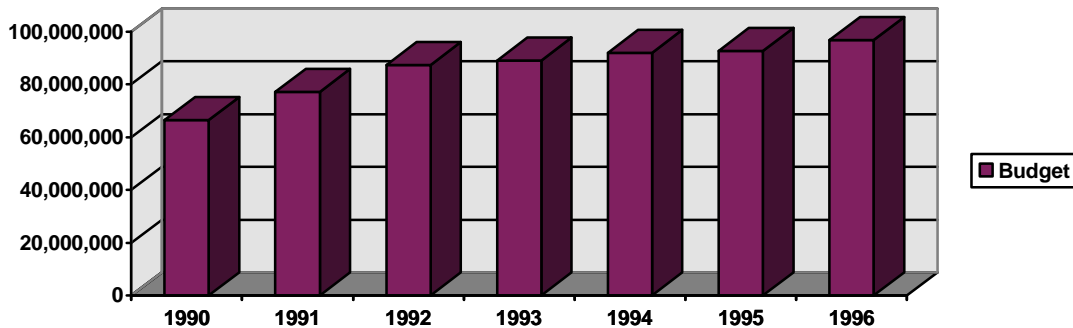
NCUA's operating budget for 1996 totals \$96.8 million, a \$ 4.1 million increase over the 1995 budget of \$92.7 million. Full Time Equivalent (FTE) staff positions increased by 6.5 positions to 950.5 positions for 1996, from the 1995 FTEs of 944.

	1996	1995	Difference
LOCATION	FTE	FTE	FTE
Headquarters	198	186	12
Regional Offices	152	159	-7
Field Examiners	600.5	599	1.5
Total Positions Authorized	950.5	944	6.5

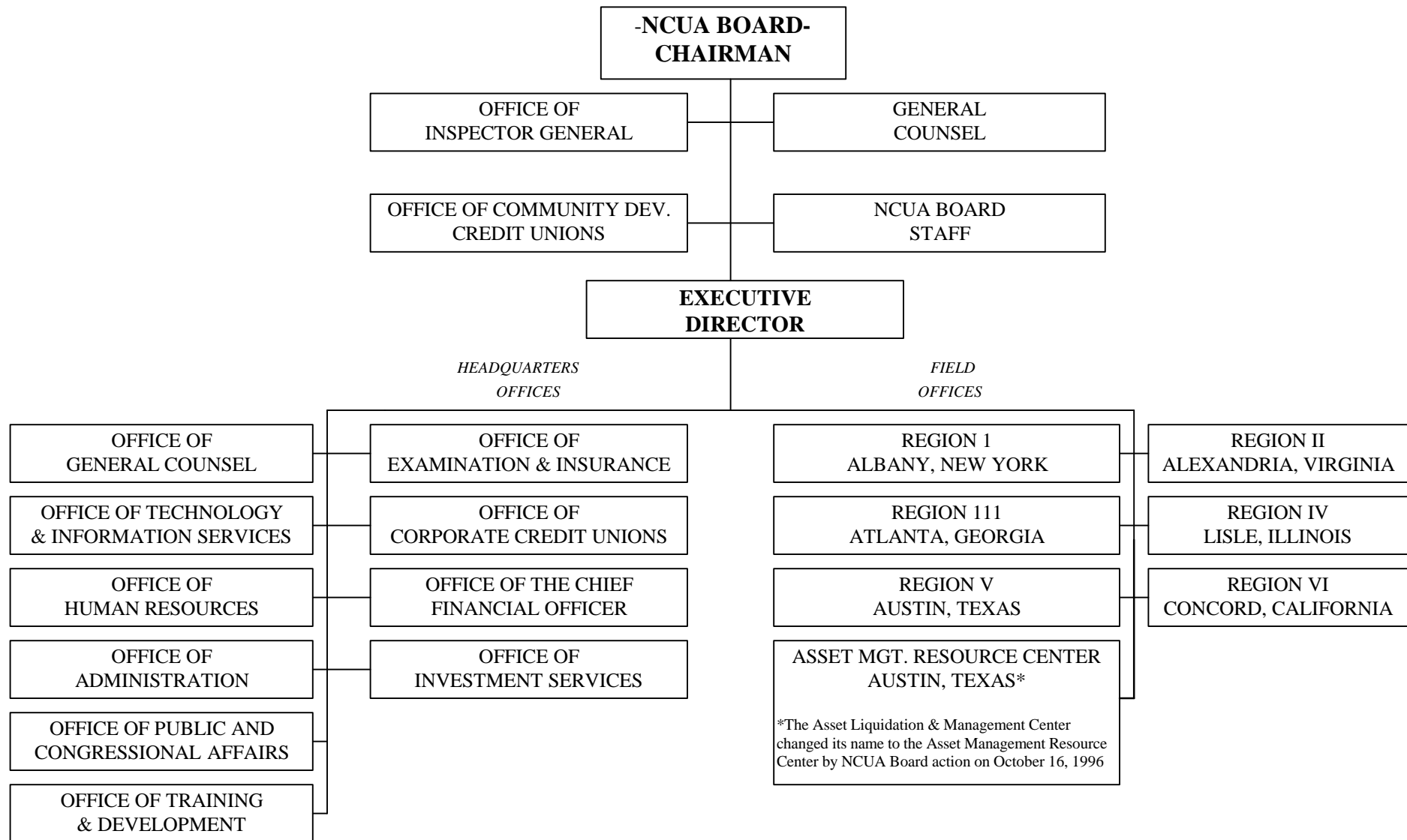
Over the past six reporting years, the agency's budget has increased from a 1990 low of \$66.5 million and 900 FTEs to a 1996

high of \$96.8 million and 950.5 FTEs. The following chart and graphs show the changes from year to year.

Year	Budget	FTE
1990	\$66,500,000	900
1991	\$77,200,000	912
1992	\$87,300,000	996
1993	\$89,000,000	998
1994	\$91,900,000	978
1995	\$92,700,000	944
1996	\$96,800,000	950.5



**NCUA ORGANIZATION CHART**





**NCUA HIGHLIGHTS**

*Follow-up on last Semiannual's Highlights*

**FORMER BOARD  
MEMBER SWAN  
CONTESTS WHEAT  
RECESS APPOINTMENT**



On April 10, 1996, President Clinton made a recess appointment for Yolanda Townsend Wheat, a Missouri attorney, to fill the position of Robert Swan whose term as a member of the NCUA Board had expired in August 1995. Mr. Swan had been serving as a holdover appointment since that time. The Senate has not yet confirmed Ms. Wheat's appointment; however, as a recess appointment she may serve until the end of the first session of the 105th Congress, that is, until late 1997. Ms. Wheat began serving her term in April 1996, and has spent the summer familiarizing herself with the NCUA. She has attended regular Board meetings since April and has voted on several matters.

In May 1996, Mr. Swan appeared before the House Banking Subcommittee on General Oversight and Investigations to complain about his ouster and also about what he termed, "abuse and mismanagement" in the NCUA. The General Accounting Office and the Subcommittee staff have both launched inquiries into the allegations.

Mr. Swan contested his removal first in the United States District Court for the District of Columbia, where he lost his request for immediate reinstatement. He appealed to the United States Court of Appeals for the District of Columbia. Oral argument was heard by a three-judge panel on September 13, 1996. *No decision has been issued to date.*

**PROPOSED CORPORATE AND  
INVESTMENT RISK REGULATIONS  
ISSUED FOR COMMENT**

The agency's proposed revisions to the corporate regulation, 12 CFR Part 704, and Part 703, Investments and Deposit Activities, were issued for comment last year.

However, the comment periods have been extended to October 1996 to ensure that the two proposals could be reviewed together by all concerned.

**LOW INCOME CREDIT UNIONS:  
CONFERENCE AND ADDITIONAL  
APPROPRIATION**

The agency co-sponsored the "Serving the Underserved" conference in Chicago from August 8-11, 1996. More than 1100 people attended from large and small credit unions and credit union trade associations to explore new ways to bring credit union financial services to poor and minority communities.

In a related matter, on September 26, 1996, President Clinton signed the VA-HUD Independent Agencies Appropriation Bill, that added \$1 million to the NCUA Community Development Revolving Loan Program Fund. Since NCUA has administered the Fund, it has revolved over \$13 million in 101 loans to 70 low income credit unions with a single loss. Interest earned on the Revolving Loan Fund finances a technical assistance program used for approved low-income credit union operations.

**NEW  
COMPUTERIZED  
EXAMINATION  
PROGRAM**

We reported in our last semiannual report that the Automated Integrated Regulatory Examination System (AIRES) used by examiners to review credit union operations had been implemented and that examiners have been trained in its use. The system was developed, in part, to reduce manual input of credit union data for computerized analyses. Examiners and credit unions appear to have overcome their initial difficulties with the system, and operations are improving. Our first review of AIRES is taking place as a by-product of our current audit of examination flexibility.

***New Highlights*****D.C. DISTRICT COURT ENJOINS  
NCUA FIELD-OF-MEMBERSHIP  
EXPANSION POLICY**

On October 25, 1996, the U.S. District Court for the District of Columbia ruled that membership in a Federal credit union by individuals or groups of individuals who do not share a *single common bond* of occupation with all other members thereof is declared to be unlawful and the NCUA is restrained from authorizing these credit unions from admitting members who do not share a single common bond of occupation.

This ruling reverses NCUA's fourteen year policy of authorizing credit unions to expand by adding other groups with common bonds unrelated to the common bond of the original credit union "core" membership. NCUA has requested clarification from the court on the extent of the ruling and plans an appeal. The

agency's request to the Court of Appeals of the D.C. Circuit, for a rehearing *en banc* of its original decision, was rejected on October 23, 1996.

The District Court received the case involving plaintiff bankers' attacks on the addition of select employee groups to the AT&T Family Federal Credit Union of Winston-Salem, N.C., on remand on July 30, 1996, from the United States Court of Appeals for the D.C. Circuit. The D.C. Circuit announced a unanimous decision that NCUA's multiple group Field of Membership (FOM) policies were inconsistent with the Federal Credit Union Act. Specifically, the Court held that, in discussing occupational credit unions, that "...all members of the FCU must share a common bond."

The agency immediately sent a letter to all credit unions notifying them that until the district court acted to require divestiture of groups not sharing a common bond, NCUA would continue to process applications under the existing guidance. However, all approved applications for FOM based on multiple groups would include a notification of the litigation and raise the possibility of future divestiture.

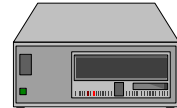
The banks filed for injunctive relief in the appellate court to block the NCUA from processing more FOM applications. The appellate court transferred jurisdiction back to the Federal district, where the banks again moved for injunctive relief. Briefs were filed by both sides in the district court on whether FOM approvals should be frozen. NCUA then sought an *en banc* ruling from the Circuit Court, which was rejected on October 23, 1996. The agency and credit union organizations have promised to fight the adverse rulings all the way to the

Supreme Court, if possible, and to seek remedial legislation if that becomes necessary.

*The AT&T Family FCU lawsuit presents an extremely serious situation for the NCUA and more importantly, members of credit unions. Since 1982, the agency has interpreted the "common bond" requirement to mean that groups with unlike common bonds could unite to form a single credit union. In other words, as long as particular groups of members shared common bonds with each other, not every member of a credit union had to share the same common bond. The Federal Credit Union Act established the mission of Federal credit unions to, "make more available to people of small means credit for provident purposes through a national system of cooperative credit." In the worst-case scenario the district court's ruling may be applied retroactively to divest members from the more than 3,000 credit unions that have expanded to include unrelated groups. These groups may not be*

*able to sustain themselves as independent credit unions. This could cause the loss of needed credit union membership for substantial numbers of the American public, including people of small means. The agency is working with the Department of Justice to pursue all avenues of legal appeal. In addition, NCUA has received some encouragement from Congress that legislation to solve the problem may be introduced in the next term.*

### **AGENCY CENTRAL DATA PROCESSING UNDERGOING CHANGE**



Significant hardware and software changes are being made to the agency's central processing system. The central mainframe is being replaced with client-server units. Off-the-shelf software for procurement, accounting, and administration is being installed. Installation of human resources and other software packages is planned for next year.

**FEDERALLY INSURED CREDIT UNION HIGHLIGHTS**

Credit unions submit semiannual call reports (financial statement data) to NCUA. An NCUA staff assessment of the mid-year call reports submitted by all federally insured credit unions for the first half of 1996 show key financial indicators of credit union well-being remained positive and stable during this period. The only potential concern may be the overall lengthening of asset maturities combined with a shorter-term share structure.

**CAPITAL DEVELOPMENT SLOWS**

Capital accumulated at the rate of 4.8% during the first half of this year, compared to 6.3% in the first half of 1995. Midyear 1996 marks the first time since the middle of 1990 that capital growth did not meet or exceed asset growth (5.5%). The slowdown in capital growth is partly attributable to an increase in accumulated unrealized losses on Available for Sale securities.

**SHARE GROWTH INCREASES**

All categories of shares expanded in the first half of 1996, and total shares increased 5.6%. This compares with share growth rates of 4.1% in the first half of last year. The largest increase so far this year has been in regular shares. Regular share accounts increased \$5.5 billion, or 4.6%, followed by share certificates, up \$3.9 billion or 6.8%.

**LOANS CONTINUE TO GROW SLOWLY**

Total loans outstanding expanded 4.6% in the first six months of this year. The increase in first mortgage real estate loans was the most significant in terms of dollar volume, expanding nearly \$3.9 billion, or

9.9%. The increase in used auto loans was the most significant in terms of dollar volume, expanding \$3.2 billion, or 10.6%.

**LOAN DELINQUENCY REMAINS STABLE**

The total dollar amount of delinquent loans remained fairly stable during the first half of this year, declining about 0.2%, while total loans outstanding increased 4.6%. Delinquent loans as a percentage of total loans for mid-year 1996 was 0.9%, compared with 1.0% at the end of the last year and 0.8% at mid-year 1995. The ratio of net charge offs to average loans increased slightly, from 0.4% to 0.5%.

The number of credit union members filing for bankruptcy in the first half of 1996 increased 19% in the last 12 months. However, the number of members filing for bankruptcy represents less than 0.2% of all credit union members. The amount of loans subject to bankruptcy, about \$580 million, represents a little less than 0.3% of total loans outstanding. The actual amount of losses could be even less, however, since many of these loans will be reaffirmed and repaid.

**INVESTMENT TRENDS**

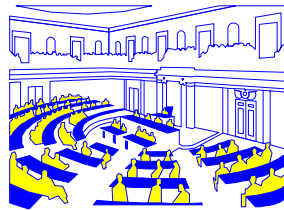
Investments increased 6.9% during the first six months of this year, compared to 1.9% for the same period last year. This is directly attributable to share growth exceeding loan growth. However, compared to mid-year 1995, investments as a percentage of assets declined, from 34.4% to 33.2%. The increase in Federal agency securities contributed the most in terms of dollar investment growth during the first half of

1996. Nearly \$3.3 billion of the total dollar volume increase is attributable to Federal agency securities. Although total investments declined throughout 1995, Federal agency securities were the only form of investment that increased steadily during the whole year.

### **OVERALL LIQUIDITY TRENDS**

While not cause for concern yet, the trend toward longer term investing and lending, coupled with the trend in shorter term shares, raises questions about a potential

increase in interest rate risk, as well as future liquidity problems. Credit unions have been counseled to assess the rate sensitivity of their share portfolios, and to determine the percentage of core deposits available to be matched to long-term assets. Each credit union is advised to have a business plan that provides for an asset/liability management strategy that evaluates its balance sheet structure, local operating environment and past experience with interest rate sensitivity before committing to long-term asset positions that would be difficult to reverse.

**LEGISLATIVE HIGHLIGHTS****LEGISLATION  
ENACTED**

On September 30, 1996, the President signed the omnibus appropriations bill for FY 1997, (H.R. 3610), which included a title on bank regulatory relief including specific credit union provisions. These included an increase to \$20,000 as the threshold aggregate loan amount to a director or member of the supervisory or credit committee requiring the approval of the full board of credit union directors.

Nonautomated credit unions were exempted statutorily from the provisions of the Truth in Savings Act.

Congress also required the Treasury to perform a study of corporate credit unions in consultation with FDIC, OCC and NCUA. The study will focus on the NCUSIF 1% deposit, evaluation of the ten largest corporates, and regulation and supervision of the corporates by NCUA. The report is due to be completed by September 30, 1997, with findings and recommendations to appropriate Congressional committees.

Section 201 of the Federal Credit Union Act was amended, in part, to add that no insured credit union may be sponsored by or accept financial support from any Government-sponsored enterprise (GSE) if the credit union includes the customers of the GSE in

its field of membership. These provisions apply on or after January 1, 1996, and also apply to banks and Savings and Loans associations.

Finally, the law amended the paperwork reduction provisions of the Community Development Financial Institutions Act to call for a review of the extent to which existing regulations require insured credit unions to produce unnecessary internal written policies and eliminate such requirements where appropriate. The provision also applies to banks.

On September 26, 1996, the President signed the VA, HUD and Independent Agencies Appropriations Act (H.R. 3666). This law contains a \$1 million addition to the NCUA Community Development Revolving Loan Program (CDRLP) for low-income credit unions.

Legislation to merge the OTS and OCC in BIF-SAIF legislation was passed (H.R. 1858); however, NCUA and the NCUSIF will not be part of any consolidation efforts.

The Single Audit Act Amendments of 1996 (P.L. 104-156), codify OMB regulations requiring non-profit institutions, the definition of which includes credit unions, which receive over \$300,000 of Federal aid, e.g., Section 208 assistance, technical aid, loans or loan guarantees, to obtain annual audits.

**LEGISLATION NOT ENACTED**

Many of the legislative proposals in the 104th Congress aimed at credit unions and the NCUA did not become legislation. Primarily, the CURE bill (S. 811), which would have tightened regulations for corporate and state chartered credit unions,

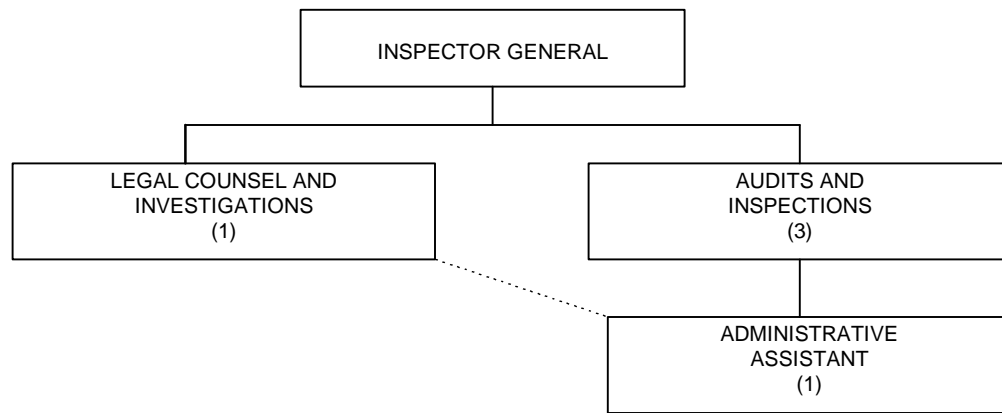
passed the Banking Committee but did not reach the Senate floor. Attempts to change the NCUA Board, by increasing the number of members to five (S. 711/H.R. 1998), and to prevent removal of a Board member except for "good cause," (H.R. 3976) expired without any action being taken.

## OFFICE OF INSPECTOR GENERAL

The Office of Inspector General was established at the NCUA in 1989 under the authority of the Inspector General Act of 1978, as amended in 1988. The staff consists of the Inspector General,

an Assistant Inspector General for Investigations/ Counsel, Assistant Inspector General for Audits, two Senior Auditors, and an Administrative Assistant.

### OFFICE OF INSPECTOR GENERAL



The Inspector General reports to, and is under, the general supervision of the NCUA Board. The Board has designated the Chairman to act as liaison with the Inspector General. The Inspector General is responsible for:

1. Conducting, supervising, and coordinating both audits and investigations of all NCUA program and operations;

2. Reviewing policies and procedures to ensure efficient and economic operations as well as preventing and detecting fraud, waste, and abuse;

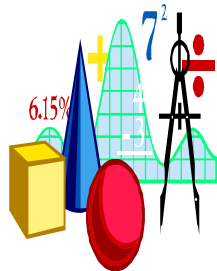
3. Reviewing existing and proposed legislation and regulations to evaluate their impact on the economic and efficient administration of agency program; and

4. Keeping the NCUA Board apprised of significant findings and recommendations.



**AUDIT ACTIVITY****A** **UDIT REPORTS ISSUED**

**Audit of NCUA's  
Ethics Program  
and Non-Litigation  
Operations, Office of  
General Counsel, Report  
Number 96-06, dated  
September 26, 1996.**



Our objectives were to (1) evaluate the effectiveness of the Ethics Program, (2) determine compliance with such laws as the Privacy Act and Freedom of Information Act, and (3) evaluate the effectiveness of the legal services advisory program. Field work was performed at the central and regional offices.

The Ethics Program was being managed well, although some improvements were needed. Management implemented some recommendations during the course of the audit. The Office of Government Ethics (OGE) confirmed to us that NCUA had implemented the one significant and several minor recommendations made by OGE in their 1993 audit. We also followed-up on the 1993 OGE recommendations and found the recommendations had essentially been adopted.

Freedom of Information Act requests received from the Public were either processed within prescribed time frames, or requesters were being advised of expected delays. The Public was being properly advised of information withheld, the reasons for withholding, and the appeal rights. However, the program could be improved to ensure that all information centers invoice

uniformly, to update fees being charged, and to improve invoicing and cash internal controls.

NCUA is complying with other laws and regulations.

Regional Office Directors and the Asset Liquidation and Management Center President all agreed that the Office of General Counsel had been providing timely and accurate responses to their requests for legal services.

The Office of General Counsel was also responding to NCUA's regulatory needs with timely, comprehensive, and well-drafted rules, regulations, and interpretive rulings.

The audit report included four recommendations on the Ethics Program and nine recommendations on the Freedom of Information Act Program.

**Audit of the Asset Liquidation and  
Management Center, Report Number 96-  
07, issued on September 26, 1996.**

The primary audit focus was on the effectiveness and efficiency of the Division of Asset Sales and Management, charged with the disposition of assets acquired as result of credit union liquidations. Our objective was to determine if the Center was maximizing recoveries for the National Credit Union Share Insurance Fund.

We evaluated compliance with the Center's directives regarding (1) management of real property, (2) sales of real property and loans, (3) financing to facilitate the sale of real property, (4) collection efforts on mortgage

and consumer loans, (5) bulk sales of mortgage and consumer loans, and (6) cash internal controls for funds collected.

Because of the inherent risk of having contract firms handling NCUA consumer loans and cash, we audited the two collection firms to examine their collection efforts, internal controls, and commission charges.

We found that the Center's Division of Asset Sales and Management had been managing and liquidating real property and loans effectively and efficiently.

We were encouraged by the Center's decision to add, on a trial basis, consumer loan collection responsibilities to the Division of Asset Sales and Management's existing mortgage loan collection duties. If results of the pilot program are favorable, resulting in permanent assignment to the Division, the Center should be able to reduce collection costs further and improve on existing internal controls.

We found some minor control weaknesses by contract firms who had been assigned collection duties on consumer loans. One contractor had curtailed its collection efforts dramatically; the Center has since canceled its contract with the firm. The other contract firm had been making good collection efforts but had been using some erroneous commission rates, mainly to their advantage. The impact of commission rate billing was small due to the reduced number of credit union liquidations and the resulting reduction of consumer loans acquired by the Center.

The audit report included one recommendation to improve the control over commission charges by contract firms.

## **OUTSTANDING AUDIT RECOMMENDATIONS**

Our August 25, 1995, audit report on NCUA's compensation system, Report No. COMP-A9401, included eleven recommendations. Management accepted our first recommendation that a comprehensive study be commissioned to review NCUA's compensation system and to compare it to those of other agencies. Management provided our findings and recommendations to the contract firm selected to perform the study. The firm expects to complete its study later this year. Management has decided to continue holding the remaining ten IG recommendations in abeyance until the study has been completed.

## **AUDITS IN PROCESS**

### **Audit of Goods and Services**

The audit objectives are to evaluate: (1) compliance with agency procurement policies and procedures; (2) the need for procured goods and services; (3) the accuracy of payments; (4) the training provided to contracting officer technical training; and (5) the effectiveness and efficiency of facility management efforts. Field work is progressing at the central and regional offices.

### **Program Audit on Flexibility of Credit Union Examinations**

Our objective is to determine if examination procedures are being curtailed or expanded where needed to allow examiners to perform an efficient but effective examination. We intend to accomplish this by evaluating:

(1) NCUA and Regional Office guidance regarding examination flexibility; (2) examiner compliance with agency guidance; and (3) the management of examiner resources. Field work will be performed at three of the six regional offices and at the Central Office of Examination and Insurance.

### **Financial Audits**

We have awarded the contract for financial audit services to a new Big Six independent public accounting firm. The firm will audit the December 31, 1996, financial statements issued by NCUA's four Funds. The firm has completed its familiarization and internal control work, and is now performing interim work.



## INVESTIGATION ACTIVITY

**I**nvestigative matters pursued by this office are generally initiated as a result of allegations, or because of potential findings of fraud, waste, abuse, corruption, or mismanagement. Investigations may involve possible violations of regulations regarding employee responsibilities and conduct, Federal criminal law, and other regulations and statutes pertaining to the activities of NCUA employees. Investigative findings may lead to criminal prosecution, civil prosecution, or administrative action.



complaints are usually examined to determine whether there is any allegation of NCUA employee misconduct and, if not, then the complaint is referred to the appropriate regional office or closed if contact with the regional office indicates that the complaint has been appropriately handled.

### **Sexual Harassment**

During the reporting period we investigated an allegation of sex harassment filed by a female credit union employee against a male NCUA Examiner. It was found that the Examiner had harassed the employee and appropriate disciplinary action was taken.

<b>Investigative Contacts</b>	
Contacts/inquiries/investigations carried forward from previous reporting period	4
Contacts initiated during reporting period	15
<i>Total contacts during reporting period</i>	19
<u>Less:</u>	
Contacts closed for lack of verifiable evidence or referred to another office	7
Matter referred for civil prosecution	1
Reports issued and matter closed	3
Reports issued and awaiting agency action	1
<i>Pending contacts (preliminary inquiries</i>	7

**Proactive Investigations**

We are continuing our work on a pro-active review of travel in the Central Office and the regions in order to detect potential Frequent Flyer abuse. In addition, we plan a brief review of the security files system to ensure that they are being maintained properly.

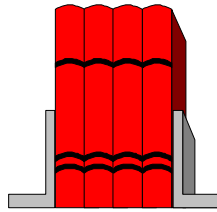
**Other Investigative Activities**

Investigative staff assisted OIG auditors with research for the goods and services and ALMC audits. The investigator also presented an integrity awareness program for new NCUA employees in July 1996.



## LEGISLATIVE AND REGULATORY REVIEWS

The OIG continues to review proposed legislation and regulations, as well as proposed agency instructions and other policy guidance, in order to make recommendations concerning economy and efficiency in the administration of NCUA programs and operations and the prevention and detection of fraud, waste, and abuse.



During the reporting period, the OIG reviewed three legislative proposals from outside the agency, two proposed NCUA regulations, and eight internal instructions. We commented on seven of the proposed instructions, including four revisions of the NCUA Personnel Manual, the Office of Training and Development Training Manual, two EEO reports and a Program Instruction on Student Career Experience. We offered extensive comments on chapters on

employee suitability, the Employee Assistance Program, and Safety and Workers' Compensation program.

### **Freedom of Information Act Instruction**

Prior to the completion of the audit report on Office of General Counsel Ethics Program and Non-Litigation Operations, we commented on a proposed revision to the Freedom of Information Act (FOIA) Instruction. The audit had uncovered some weaknesses in the identification and collection of fees for responses to FOIA requests. We recommended that the new Instruction include follow-up procedures on delinquent accounts and provide for on-line delinquency checks by regional office personnel. Also, charges in interest rates needed to be addressed, and other internal controls strengthened when the new procedures are issued. This Instruction has not yet been issued.

**OTHER OIG ACTIVITIES****Staff Training and Development**

The Inspector General continued to participate in the Financial Institutions Regulatory Committee of the Executive Council for Integrity and Efficiency (ECIE). The Committee provides a forum for Inspectors General of the NCUA, the Federal Reserve, the Department of the Treasury, the FDIC, the SEC, and the Farm Credit Administration to: discuss matters of mutual interest; coordinate relevant audits; investigations, legislative and regulatory matters; and to seek uniform approaches to handling similar issues.



first annual Fraud Conference sponsored by the Department of Defense and OMB, and a seminar on Expert Systems Technology sponsored by the U.S. House of Representatives.

The audit staff has completed the required continuing education requirements for 1996. One senior auditor received NCUA training on Asset/Liability Management and Real Estate Lending. The auditor also observed an NCUA examination of credit union.

Another senior auditor received NCUA training on credit union Problem Resolution and observed an NCUA examination of a corporate credit union.

The Inspector General attended a PCIE Forum on, "The IG's Role in the Department." The Inspector General and the Assistant Inspector General for Audits (AIGA) attended a PCIE Forum on Government Computers. The Inspector General and the Assistant Inspector General for Investigations (AIGI) attended a PCIE Forum on, "Emerging Product Lines in Audit, Investigations and Inspections," as well as the

The AIGI also attended the Office of Government Ethics annual conference where she made a presentation on administrative allegations, and a Council of Counsels to Inspectors General training seminar, where she made a presentation on ethics. The AIGI also lectured on Legal Considerations in Fraud Auditing at the Inspectors General Audit Training Institute in Ft. Belvoir.

TABLE I

INSPECTOR GENERAL ISSUED REPORTS WITH QUESTIONED COSTS				
		Number of Reports	Questioned Costs	Unsupported Costs
A.	For which no management decision had been made by the start of the reporting period.	0	\$ 0	\$ 0
B.	Which were issued during the reporting period.	2	586	0
	Subtotals (A + B)	2	586	0
C.	For which management decision was made during the reporting period.	0	0	0
	(i) dollar value of disallowed costs	0	0	0
	(ii) dollar value of costs not disallowed	0	0	0
D.	For which no management decision has been made by the end of the reporting period.	0	0	0
E.	Reports for which no management decision was made within six months of issuance.	0	0	0

Questioned costs are those costs the OIG has questioned because of alleged violations of laws, regulations, contracts, or other agreements; findings which at the time of the audit are not supported by adequate documentation; or the expenditure for the intended purpose is unnecessary or unreasonable.

Unsupported costs (included in "Questioned Costs") are those costs the OIG has questioned because of the lack of adequate documentation at the time of the audit.



TABLE II

INSPECTOR GENERAL ISSUED REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE			
		Number of Reports	Dollar Value
A.	For which no management decision had been made by the start of the reporting period.	0	\$0
B.	Which were issued during the reporting period.	0	0
	Subtotals (A + B)	0	0
C.	For which management decision was made during the reporting period.	0	0
	(i) Dollar value of recommendations agreed to by management.	N/A	0
	(ii) Dollar value of recommendations not agreed to by management.	N/A	0
D.	For which no management decision was made by the end of the reporting period.	0	0
E.	For which no management decision was made within six months of issuance.	0	0

Recommendations that "Funds to be Put to Better Use" are those OIG recommendations that funds could be used more efficiently if management took actions to reduce outlays, de-obligate funds from programs/operations, avoid unnecessary expenditures noted in pre-award reviews of contracts, or any other specifically identified savings.

TABLE III

SUMMARY OF OIG ACTIVITY APRIL 1, 1996 THROUGH SEPTEMBER 30, 1996 (THREE PARTS)		
PART I -- AUDIT REPORTS ISSUED		
Report Number	Title	Date Issued
96-06	Ethics Program and Non-Litigation Operations	Sept. 26, 1996
96-07	Asset Liquidation and Management Center	Sept. 26, 1996
PART II -- AUDITS IN PROCESS OR PLANNED (as of September 30, 1996)		
	Audit of Goods and Services	
	Program Audit on Examination Flexibility	
	Audit of the December 31, 1996 Financial Statements	
PART III -- REVIEWS OF REGULATIONS		
Regulations	Title	
12 CFR 711	Management Interlocks	
12 CFR 701, 709, 741	Secondary Capital for Designated Low Income Credit Unions	